

REPORT OF EXAMINATION
OF THE
PREMIER ACCESS INSURANCE COMPANY

AS OF
DECEMBER 31, 2004

Participating State
and Zone:

California

Filed: January 27, 2006

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San Francisco, California
November 9, 2005

Honorable Alfred W. Gross
Chairman of the NAIC Financial
Condition Subcommittee
Commissioner of Insurance
Virginia Bureau of Insurance
Richmond, Virginia

Honorable John Morrison
Secretary, Zone IV-Western
Commissioner of Insurance and Securities
Montana Department of Insurance
Helena, Montana

Honorable John Garamendi
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Chairman and Commissioners:

In accordance with your instructions, an examination was made of the

PREMIER ACCESS INSURANCE COMPANY

(hereinafter referred to as the Company) at its home office located at 555 University Avenue, Sacramento, California 95825.

SCOPE OF EXAMINATION

The last examination of the Company was made as of December 31, 1999. This examination covered the period from January 1, 2000 through December 31, 2004. The examination was conducted in accordance with the National Association of Insurance Commissioners' plan of examination. The present examination included a review of the Company's practices and procedures, an examination of management records, tests and analyses of detailed transactions,

an evaluation of assets, and a determination of liabilities as of December 31, 2004, as deemed necessary under the circumstances.

In addition to those items specifically commented upon in this report, other phases of the Company's operations were reviewed including the following areas that require no further comment: fidelity bonds and other insurance; officers', employees' and agents' welfare and pension plans; business in force by states; sales and advertising; and loss experience.

COMPANY HISTORY

On January 1, 2005, the parent of the Company underwent a corporate reorganization. As a result, Access Dental Plan (Access), the parent, split into two affiliated companies, and the Company became a third affiliated company under a newly formed holding company, Abbaszadeh Dental Group, Inc. (ADG). As part of this reorganization ADG obtained ownership of the 25,000 shares of the Company's common stock that were previously owned by Access. Dr. Mohammed Reza Abbaszadeh retained his direct ownership of 9,500 shares of the total 34,500 shares of the issued and outstanding common shares of the Company. Dr. Abbaszadeh remained the ultimate controlling person through his sole ownership of ADG. The California Department of Insurance granted approval of the reorganization on May 27, 2004.

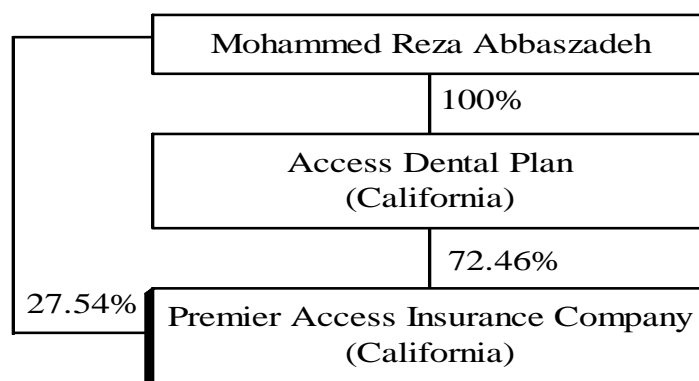
In 2002, Dr. Abbaszadeh, as the ultimate controlling person of Premier Access Insurance Company, authorized an amendment to the Company's bylaws increasing the number of the board of directors members to a range from five to ten members retroactively to May 5, 2000.

During 2000, the Company received a cash capital contribution of \$322,066 from Dr. Abbaszadeh, the ultimate controlling person.

MANAGEMENT AND CONTROL

As of December 31, 2004, the Company was a member of an insurance holding company system in which Access Dental Plan (Access), the Company's parent, owns 72.46% of the Company.

Dr. Mohammed Reza Abbaszadeh, the sole owner of Access, owns the remaining 27.54%. The following chart depicts the interrelationship of the Company within the holding company system as of December 31, 2004:



Management of the Company is under the control of a five-member board of directors and the officers of the Company. The directors and principal officers as of December 31, 2004 were as follow:

Directors

Name and Residence

Principal Business Affiliation

Mohammed Reza Abbaszadeh, DDS
Sacramento, California

President and Chief Executive Officer
Access Dental Plan

Barton McDougal, CPA
Carmichael, California

Chief Executive Officer
McDougal & Co., Inc.

Carson L. Lovett
Sacramento, California

Retired

Edward J. Munno
Tucson, Arizona

President and Chief Executive Officer
Abovehealth

Jeffrey L. Elder
Sacramento, California

Senior Vice President and Chief Financial
Officer
Edonsonics Corporation

Principal Officers

<u>Name</u>	<u>Title</u>
Mohammed Reza Abbaszadeh, DDS	President and Chief Executive Officer
Brent A. Seegmiller*	Treasurer and Chief Financial Officer
Richard C. Fulton	Chief Marketing Officer
Walter W. Weller	Actuary

*Brent Seegmiller resigned his position as of April of 2005. Hideo Kakiuchi accepted the Chief Financial Officer position of the Company on August 1, 2005.

Affiliated Management Agreements

Administrative Services Agreement - Access Dental Plan: There is an Administrative Service Agreement between the Company and Access Dental Plan (Access), effective as of July 1, 2002. Under the terms of this agreement, each party agrees to perform certain services for the other party as is determined to be reasonably necessary in the conduct of operations. Services include, but are not limited to, the following: Access employees shall provide certain accounting services for the Company as may be required; the Company shall provide Actuarial Services to Access as needed; Access employees shall perform customer and provider services duties for the Company under the direction and supervision of the Company as necessary, and vice versa; sharing of employees to perform information technology services; and marketing. This agreement was submitted to the California Department of Insurance (CDI) and was approved on September 29, 2004.

Service Agreement - Data Telesis, Private Limited: The Company is a party to a Service Agreement with Data Telesis, Private Limited (Data Telesis), effective as of July 2003. Under the terms of the Service Agreement, Data Telesis agrees to provide administrative support and services to the Company. Services include, but are not limited to, the following: claim processing, data entry, comprehensive accounting functions including accounts payable, accounts receivable, consolidation of information, commission calculations and financial analysis, collection services, telephone member services, enrollment services, dental billing

services and payroll and human resources tasks. This agreement was submitted to the CDI and was deemed approved.

Administrative Services Agreement - WebHR.com Administrators: The Company is a party to an Administrative Services with Right of Setoff Agreement (Setoff) with WebHR.com Administrators (WebHR), an affiliate, effective the later of January 1, 2005 or the setoff approval date as granted by the Commissioner of the California Department of Insurance. Each party agrees to perform services as described in the agreement for the other party as is determined to be reasonably necessary in the conduct of operations. Services include, but are not limited to, the following: the Company agrees to make available its facilities to WebHR; the Company shall provide accounting services for WebHR; As a third party administrator WebHR shall perform enrollment, billing and COBRA administration services for the Company; when reasonable and necessary, the Company employees shall perform, or coordinate, information technology services for WebHR under the direction and supervision of WebHR; joint marketing; and the Company shall provide other functional support services to WebHR as reasonable and necessary. Other functional support services include, but are not limited to, mailroom services, reception, payroll, human resources, and translation.

The Company filed for prior approval pursuant to California Insurance Code (CIC) Section 1215.5 (b) (4) - Form D - Notice of Transaction, to enter into an administrative services agreement with WebHR. Review of the application is currently pending.

Office Lease - Executive Offices of California Center: A lease agreement between the Company (tenant) and Executive Offices of California Center, a California Limited Partnership (EOCC - landlord) was entered into on April 10, 2004. The general partner of EOCC is California Center Office Development, LLC which is wholly owned by Dr. Mohammed Reza Abbaszadeh. The office building will serve as the corporate headquarters of the Company. The Company has occupied the property since June 2005. This transaction is subject to CIC Section 1101. It is recommended that the Company file for certificate of exemption in accordance with CIC Section 1101.

Conflict of Interest

The Company currently does not solicit conflict of interest statements from its directors, officers, and key employees. It is recommended that the Company solicit such statements from its directors, officers, and key employees annually.

CORPORATE RECORDS

The Company's board actions regarding the authorization and approval of excess fund investments did not satisfy the requirements of California Insurance Code (CIC) Sections 1200 and 1201. Approval of these investments was entered into the minutes for only the last two board meetings in 2004. The Company's board actions regarding the authorization and approval of excess funds investments did not comply with the requirements of CIC Section 1201 because specific references to amounts, facts and the values of the securities were not included in the minutes.

It is recommended that the Company implement procedures to ensure future compliance with CIC Sections 1200 and 1201.

Board minutes indicate that the board was not given notice, prior to submission to the California Department of Insurance, of the CIC Section 1101(c) exemption application regarding the \$1,520,000 real estate loan to Dr. Abbaszadeh made in December 2003. It is recommended that the board authorize and approve mortgage loans in accordance with CIC Section 1101(c).

TERRITORY AND PLAN OF OPERATION

As of December 31, 2004, the Company was licensed to transact disability insurance in the States of California, Arizona, Texas, and Colorado. The Company currently writes dental indemnity insurance only. In 2004, the Company wrote direct premiums of \$47,702,458 of which 97% was written in California with the balance being written in Arizona.

The Company's main line of business is commercial Preferred Provider Organization (PPO) with premiums of \$41,604,485 in 2004. The Company also participates in the dental portion of the State of California's Healthy Families Program (HFP). HFP provides subsidized health, dental and vision care for children whose families meet certain federal poverty level thresholds. The Company also writes a small amount of individual dental coverage. In 2004, the premiums from HFP and the individual plans totaled \$5,952,829 and \$307,730, respectively. In addition to writing dental indemnity policies, the Company also performs administrative services for self-insured dental plans on a fee basis. In 2004, total administrative fee revenue was \$480,076.

The Company markets its product through approximately 430 brokers and nine general agents.

The Company stated that it establishes premium rates based on its own experience modified by competition factors. All group and individual applications for insurance are underwritten by the Company's underwriting staff. In addition to its home office, the Company has three small sales offices, two in California and one in Arizona.

GROWTH OF COMPANY

The Company has grown rapidly since the prior examination date, December 31, 1999. The following exhibit depicts the trend in several areas:

Item	1999	2004	% Change from 1999 through 2004
Premiums – Dental	\$ 6,317,322	\$ 47,702,458	655 %
Net Gain (Loss)	(377,314)	3,996,470	
Claim Reserves	1,222,000	4,188,085	243 %
Total Admitted Assets	4,471,702	18,881,475	322 %
Total Liabilities	1,937,695	6,890,493	255 %
Capital and Surplus	2,534,007	11,990,982	373 %

Significant increases in premium writings during the examination period are primarily due to the Company expanding its California markets to the Bay Area, Central Valley, Orange and San Diego counties. In 2002, the Company further expanded into the Arizona market.

The increases in capital and surplus are primarily the result of the Company's positive net income during the examination period.

REINSURANCE

Assumed

The Company had no reinsurance assumed business.

Ceded

The Company had no reinsurance ceded business.

ACCOUNTS AND RECORDS

Information System Controls

During the course of the examination, a review was made of the Company's general controls over its information systems. As a result of the review, weaknesses were noted in areas such as management controls, business continuity and disaster recovery planning, and logical security. The weaknesses noted were presented to the Company along with recommendations to strengthen its controls. The Company should evaluate the recommendations and make appropriate changes to strengthen its information system controls.

FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2004

Summary of Operations and Capital and Surplus Account for the Year Ended
December 31, 2004

Reconciliation of Capital and Surplus from December 31, 1999
through December 31, 2004

Statement of Financial Condition
as of December 31, 2004

	<u>Ledger and Nonledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
<u>Assets</u>				
Bonds	\$ 9,571,517	\$ 334,560	\$ 9,236,957	(1)
Stocks:				
Preferred stocks	76,530	76,530	0	
Common stocks	437,430	437,430	0	
Mortgage loans on real estate:				
First liens	2,292,673		2,292,673	(2)
Cash and short-term investments	6,075,953	40,873	6,035,080	
Investment income due and accrued	141,712		141,712	
Premiums and considerations:				
Uncollected premiums and agents' balances in course collection	817,468		817,468	
Current federal and foreign income tax recoverable and interest thereon	136,500		136,500	
Net deferred tax asset	207,000		207,000	
Electronic data processing equipment and software	1,885,222	1,885,222	0	
Receivable from parent, subsidiaries and affiliates	2,592		2,592	
Aggregate write-ins for other than invested assets	<u>142,269</u>	<u>130,776</u>	<u>11,493</u>	
Total assets	<u>\$21,993,816</u>	<u>\$3,112,341</u>	<u>\$18,881,475</u>	
<u>Liabilities, Capital and Surplus</u>				
Aggregate reserve for accident and health contracts			\$ 139,456	(3)
Contract claims: Accident and health			4,188,085	(3)
Premium and annuity considerations for accident and health contracts			1,058,102	
Commissions to agents due or accrued			469,744	
General expenses due or accrued			990,844	
Taxes, licenses and fees due or accrued			34,652	
Aggregate write-ins for liabilities			<u>9,610</u>	
Total liabilities			6,890,493	
Common capital stock		\$ 1,725,000		
Gross paid-in and contributed surplus		2,600,731		
Unassigned funds (surplus)		<u>7,665,251</u>		
Capital and surplus			<u>11,990,982</u>	
Total liabilities, capital and surplus			<u>\$18,881,475</u>	

Summary of Operations
for the Year Ended December 31, 2004

Summary of Operations

Premiums		\$47,865,044
Net investment income		657,664
Aggregate write-in for miscellaneous income		<u>561,557</u>
Total		<u>49,084,265</u>
Deductions:		
Disability benefits under accident and health policies	\$32,858,296	
Increase in aggregate reserves for accident and health contracts	(9,089)	
Commissions on premiums	3,764,933	
General insurance expenses	5,835,588	
Insurance taxes, licenses and fees	<u>1,447,597</u>	
Total		<u>43,897,325</u>
Net gain from operation before federal income taxes		5,186,940
Federal income taxes incurred		1,145,000
Net realized capital losses		<u>(45,470)</u>
Net income		<u>\$ 3,996,470</u>

Capital and Surplus Account

Capital and surplus, December 31, 2003		\$ 9,888,016
Net income	\$3,996,470	
Change in net unrealized gains	41,218	
Change in net deferred income tax	200,000	
Change in nonadmitted assets	(2,183,498)	
Change in asset valuation reserve	<u>48,776</u>	
Net change in capital and surplus for the year		<u>2,102,966</u>
Capital and surplus, December 31, 2004		<u>\$11,990,982</u>

Reconciliation of Capital and Surplus
from December 31, 1999 through December 31, 2004

Capital and surplus, December 31, 1999, per Examination			\$ 2,534,007
	<u>Gain in</u> <u>Surplus</u>	<u>Loss in</u> <u>Surplus</u>	
Net income	\$11,793,802	\$	
Change in net unrealized gains	72,768		
Change in net deferred income tax	207,000		
Change in nonadmitted assets		2,938,661	
Change in asset valuation reserve			
Surplus adjustments: Paid-in	<u>322,066</u>	<u> </u>	
Total gains and losses	<u>\$12,395,636</u>	<u>\$2,938,661</u>	
Net increase in capital and surplus			<u>9,456,975</u>
Capital and surplus, December 31, 2004, per Examination			<u>\$11,990,982</u>

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Bonds

The Company was unable to provide documentation showing approval by the California Department of Insurance (CDI) of its custodial agreement with Wells Fargo Bank, N.A., executed on August 29, 2001. It is recommended that the Company file its Custodial Agreement pursuant to California Insurance Code (CIC) Section 1104.9(c).

(2) Mortgage Loans

A mortgage loan in the amount of \$1,520,000 to Dr. Abbaszadeh made in December 2003 is not in compliance with CIC Section 1197. CIC Section 1197 states that excess funds investments shall not be made in a loan to any one borrower, in an amount exceeding 10 percent of the capital stock and surplus. It is recommended that the Company take actions to be in compliance with CIC Section 1197.

(3) Aggregate Reserve for Accident and Health Contracts, Contract Claims: Accident and Health

The Company's reserves for accident and health policies were evaluated by an Examiner from the CDI. Based upon the evaluation, the reserves established by the Company have been accepted for purposes of this examination report.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Management and Control - Affiliated Management Agreement (Page 4): It is recommended that the Company file for certificate of exemption in accordance with California Insurance Code (CIC) Section 1101.

Management and Control - Conflict of Interest (Page 6): It is recommended that the Company solicit conflict of interest statements from its directors, officers, and key employees on an annual basis.

Corporate Records (Page 6): It is recommended that the Company implement procedures to ensure future compliance with CIC Sections 1200 and 1201. It is recommended that the Board authorize and approve mortgage loans in accordance with CIC Section 1200.

Comments on Financial Statement Items - Bonds (Page 13): It is recommended that the Company file its Custodial Agreement pursuant to CIC, Section 1104.9(c).

Comments on Financial Statement Items – Mortgage Loans (Page 13): It is recommended that the Company take actions to be in compliance with CIC Section 1197.

Previous Report of Examination

Management and Control - Administrative Services Agreement (Page 3): It was recommended that the Company maintain documentation to support the cost-reimbursement basis for the services rendered by its parent, Access Dental Plan. The Company is now in compliance.

Management and Control - Conflict of Interest (Page 4): It was recommended that the Company solicit conflict of interest statements from its directors, officers, and key employees annually. During the examination period, the Company has not fully complied with this recommendation.

Corporate Records (Page 4): It was recommended that the Company comply with CIC Section 735 in notifying its board of directors that a copy of the report is available for review. The Company is now in compliance.

Corporate Records (Page 4): It was recommended that the Company amend its by-laws to increase the number of directors that are allowable on its board of directors or reduce the number of board members to comply with its by-laws. The Company is now in compliance.

Accounts and Records - General (Page 6): The Company should make an effort to complete its Quarterly and Annual Statements correctly. The Company appears to be in compliance with the recommendation.

Accounts and Records - General (Page 6): It was recommended that the Company file electronic versions of its Quarterly and Annual Statements with the National Association of Insurance Commissioners. The Company has complied with the recommendation.

Accounts and Records - General (Page 6): It was recommended that the Company make timely filing of its annual holding company updates in the future. The Company has complied with the recommendation.

Accounts and Records - Information System Controls (Page 6): It was recommended that the Company evaluate the recommendations and make appropriate changes to strengthen its information system controls. Some of these recommendations are also incorporated in the summary of the current information systems review provided to the Company. (See Accounts and Records – Information Systems Control Environment)

Sales and Advertising (Page 7): It was recommended that the Company comply with the California Department of Insurance Bulletin NS-3 and maintain a file of its advertising material. The Company is now in compliance.

Comments on Financial Statement Items - Bonds (Page 11): It was recommended that the Company report its bonds at amortized cost in accordance with the NAIC Annual Statement Instructions for Life, Accident and Health. The Company is now in compliance.

Comments on Financial Statement Items - Cash and Short-term Investments (Page 11): It was recommended that the Company establish a formal unclaimed property policy. It is also recommended that the Company transfer outstanding checks to an unclaimed property account

after the checks have been outstanding for a fixed period of time (e.g., 120 days). The Company is now in compliance.

Comments on Financial Statement Items - Policy and Contract Claims – Accident and Health (Page 11): It was recommended that the Company use the most current data when compiling its claims development report. The Company is now in compliance.

Comments on Financial Statement Items - Policy and Contract Claims – Accident and Health (Page 11): It was recommended that the Company review its rates for individual policies to determine if the rates charged are adequate. The Company is now in compliance.

Comments on Financial Statement Items - Policy and Contract Claims – Accident and Health (Page 11): It was recommended that the Company make the appropriate changes to its claims manual and its claims practices so that they will be in compliance with Sections 2695.7 (b) (1) and (3) of Title 10 of the California Code of Regulations. The Company is now in compliance.

Comments on Financial Statement Items - Premiums Received in Advance (Page 12): It was recommended that the Company book the entire premium for individual policy as premiums written, establish the appropriate liabilities associated with the policy (e.g., commissions, premium taxes, unearned premiums) and report the unearned premiums under the caption “Aggregate reserve for accident and health policies.” The Company is now in compliance.

Comments on Financial Statement Items - Commissions to Agents Due or Accrued (Page 13): It was recommended that the Company establish its commissions liability to match the premium revenue that is booked by the Company. The Company is now in compliance.

Comments on Financial Statement Items - General Expenses Due or Accrued (Page 13): It was recommended that the Company establish reserves for loss adjustment expenses for unpaid claims in future financial statements. The Company is now in compliance.

Comments on Financial Statement Items - Taxes, Licenses, and Fees (Page 13): The issue of whether premiums generated through the Healthy Families Program are taxable or not has been referred to the California Department of Insurance's Tax Audit Bureau for further review. It was determined by State Board of Equalization that premiums generated through the Healthy Families Program are taxable. The Company is now in compliance.

Comments on Financial Statement Items - Payable to Parent (Page 13): It was recommended that the Company settle its inter-company balances quarterly with its parent company in accordance with the terms of the administrative services agreement. The Company is now in compliance.

ACKNOWLEDGEMENT

Acknowledgement is made of the cooperation and assistance extended by the officers and employees of the Company during the course of this examination.

Respectfully submitted,

/S/

Kyo Chu, CFE
Examiner-In-Charge
Associate Insurance Examiner
Department of Insurance
State of California